Annual Report · 1970

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Bartaco Industries Limited

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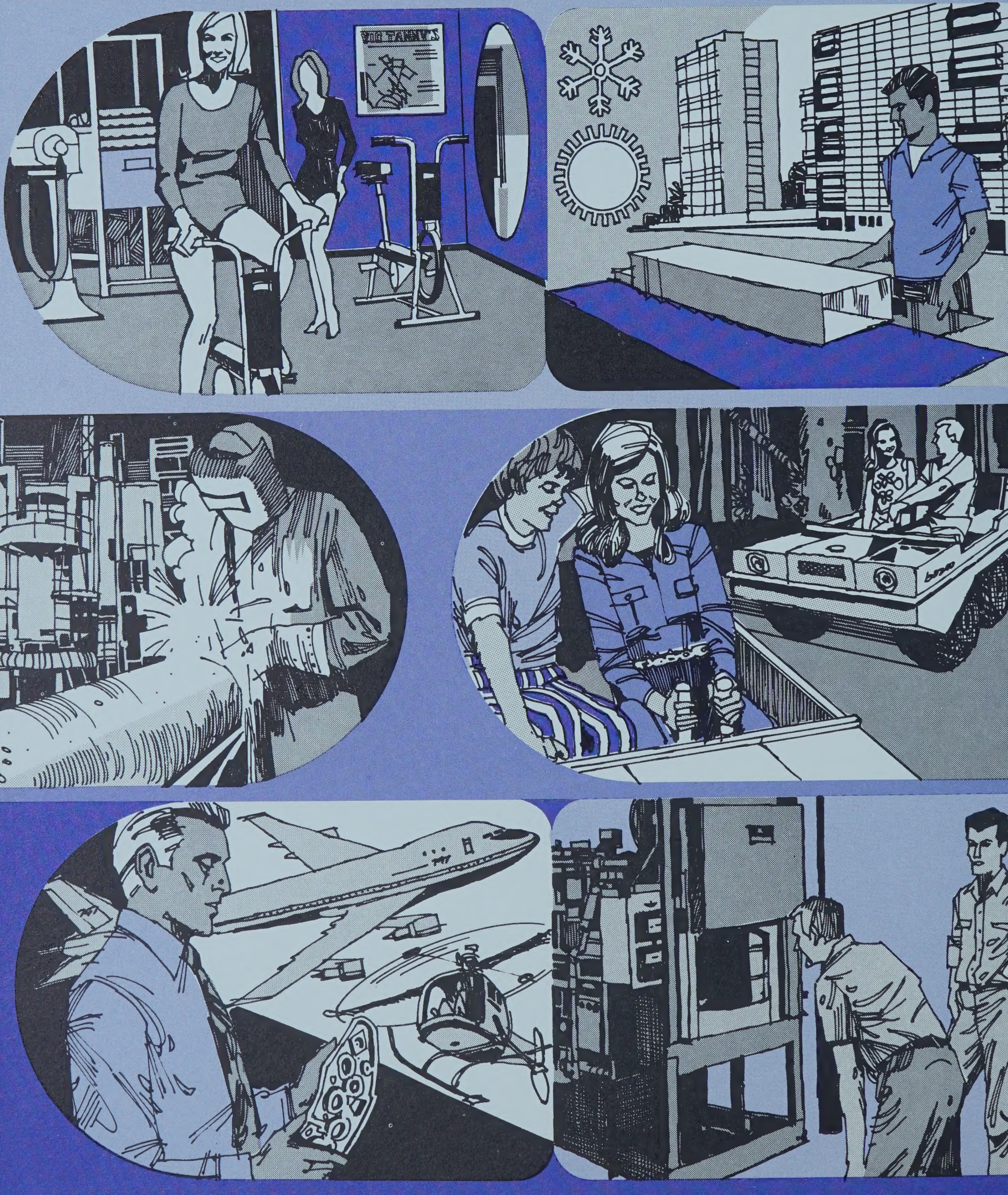


Bartaco Industries Limited

Corporate Offices: WEST STREET SOUTH, ORILLIA, ONTARIO • Telephone 705/325-6121

DIRECTORS

ROBERT M. BARR, Orillia, Ontario
BRIAN W. BARR, Orillia, Ontario
TINKHAM VEALE II, Gates Mills, Ohio
MYRON S. GELBACH Jr., Philadelphia, Penn.
WILLIAM F. DRAKE Jr., Philadelphia, Penn.
R. HOWARD McRAE, Orillia, Ontario

OFFICERS

ROBERT M. BARR, President
BRIAN W. BARR, Vice President
R. HOWARD McRAE, Executive Vice-President and Treasurer
WILLIAM F. DRAKE Jr., Secretary
WILLIAM M. BAUER, Assistant Secretary

OPERATING COMPANIES

BARLIN-SCOTT MANUFACTURING COMPANY LIMITED
DON BARNES LIMITED
GAS MACHINERY COMPANY (CANADA) LIMITED
HALEY INDUSTRIES LIMITED
LEEDS RICHARDSON COMPANY LIMITED
    SHORE PILE SERVICES LIMITED
OTACO LIMITED
    C.S. CASTINGS LIMITED
    MURRAY ANDERSON LIMITED
RENFREW AIRCRAFT & ENGINEERING COMPANY LIMITED
VIC TANNY MANAGEMENT LIMITED
    JOHN VALENTINE LIMITED
    JOHN VALENTINE (HOLDINGS) A. G.
WAYNE FORGE LIMITED

TRANSFER AGENTS AND REGISTRAR

Shares: NATIONAL TRUST COMPANY LIMITED
Montreal, Toronto,Winnipeg and Vancouver

TRUSTEE

Debentures: MONTREAL TRUST COMPANY

ROBERT M. BARR
PRESIDENT

The twelve month period included in this report has not satisfied our expectations due to the general economic conditions, including the depressed state of the aerospace industry; the revaluation of the Canadian dollar and the many unforeseen problems that we have encountered in the start up programme of our new foundry.

These conditions have caused our earnings per share, before extraordinary income, to drop from a restated figure of $1.01 for the twelve months ended September 30th, 1969, to .66c per share for the reporting period.

Again this year you will note that the balance sheet on your report is comprised of three columns of figures for comparative reasons. The first column represents the audited figures as of September 30th, 1970 — the centre column represents the 1969 company figures restated to include any acquisitions during the year and, of course, the third column represents the audit figures for September 30th, 1969.

The economic trends of 1970 affected Haley Industries Limited severly due to the decline in the aerospace industry. The revaluation of the Canadian dollar certainly took its toll due to the fact that the major portion of Haley's customers are derived through exporting to U.S. markets.

However, Haley has been able to implement an extensive sales effort and we feel that these additional orders that they have obtained will put the company in a position where it will again take its position in contributng to your company's overall profit picture.

The start up problems encountered by Otaco's foundry expansion are all behind them and the new facility is now operating on a smooth and productive basis. Otaco's foundry division entered 1971 with the largest backlog of orders that we have enjoyed at any time in the past and during the last few months this division has been successful in receiving several substantial orders from the automotive industry.

We believe that in the near future our Foundry will be considered one of the main facilities in North America supplying all types of ductile iron castings.

The individual company presidents have submitted resume of their operations for this reporting period which you will find on the following pages of your Annual Report.

We are pleased to advise that during 1970 we have acquired two companies, known as, Vic Tanny Management Limited and John Valentine Limited. Among other considerations, these acquisitions required the issuance of 50,000 common shares and it is on this basis that our earnings per share has been calculated, as the Tanny

PRESIDENT'S REPORT TO THE SHAREHOLDERS

and Valentine companies were brought into our operations on a pooling of interests basis.

Vic Tanny Management Limited presently operates thirty-four clubs throughout Ontario and Quebec and we look forward to the future expansion of these spas across Canada. We feel that health and physical fitness is one of the fastest growing industries in the Country today.

John Valentine Limited owns 51% of John Valentine (Holdings) A. G. a holding company that has been set up in Zurich Switzerland, with the objective of operating a franchise arrangement for health clubs which we hope will eventually expand throughout the United Kingdom, France, Germany, Belgium, Italy and Switzerland.

We are extremely pleased with these two acquisitions and feel very confident that these additions to our diversified Bartaco Group will prove to be most beneficial to your Company from a profit and personnel standpoint.

Your Company looks to the future as being very exciting as we enter 1971 with one of the largest backlog of orders in our history. We anticipate that our sales objective can be realistically achieved by September 30th, 1971 with an aggressive sales approach by our entire group of subsidiaries, who are at the present time forecasting enthusiastic increases for the coming year.

The Company is also looking at several new and very interesting products which we feel will be on the market in the not too distant future.

Your company anticipates achieving a new earnings record during 1971 as we are very confident that our internal expansion will more than attain the substantial sales increase forecast.

We are indeed proud to be a part of our parent group Alco Standard Corporation of Philadelphia, Pennsylvania, who have assisted us, so generously, during the past twelve months in the form of financial aid to assist in bridge financing of our overall expansion programme. We have also received from Alco Standard Corporation a wealth of experience, knowledge and advice from their vastly diversified organization.

I wish to take this opportunity to extend my sincere thanks to all our employees who have put forth a very dilligent effort during the past year.

We are enthusiastic about 1971 and confident that the results will be very satisfying to each and every one of our many shareholders.

President

Holdings

VIC TANNY MANAGEMENT LIMITED

Head Office:
43 EGLINTON AVENUE EAST, TORONTO 12, ONTARIO

JOHN B. VALENTINE
PRESIDENT

VIC TANNY'S 34 HEALTH SPAS

LOCATED IN THE FOLLOWING CITIES

(9) TORONTO	(1) LONDON	(1) ST. CATHARINES
(6) MONTREAL	(1) KITCHENER	(1) NIAGARA FALLS
(2) QUEBEC CITY	(3) OTTAWA	(1) SAULT STE MARIE
(1) THORNHILL	(1) OSHAWA	(1) THUNDER BAY
(1) SUDBURY	(1) WINDSOR	(1) SARNIA
(2) HAMILTON	(1) OAKVILLE	

All of us at Vic Tanny Management Limited are pleased with the acquisition of our company by Bartaco Industries Limited, which was concluded during the 1970 fiscal period, allowing our Group to become a member of the Bartaco corporate family.

As President of Tanny Management and John Valentine Limited, this opportunity to aquaint shareholders with some background of our operation and plans for the future is appreciated.

We are a progressive organization, nationally recognized as the leader in Health Spa management. Our membership in Bartaco will permit us to progress with our across Canada expansion plans during the 1971 fiscal period.

This expansion will be in keeping with the extension of our locations in 1970 that have

considerably increased our profits over the previous year.

The Health Club business in North America has expanded considerably over the past decade. We are fortunate to have been in the vanguard to take full advantage of this increase. Today, Vic Tanny Management operates the largest chain of Health Spas, all centered in eastern Canada.

In 1971, we will see the opening of the first of our chain of European locations, which we project, will quickly expand to many health clubs in the United Kingdom and Europe.

Through our subsidiary company John Valentine (Holdings) A. G. with head office in Zurich, Switzerland, we will be operating in partnership with Magazine zum Globus, one of Europe's largest department store chains. With our knowledge of the health club industry combined with their marketing experience, this European expansion should prove most successful.

Our Swiss partners are developing major shopping centres in many areas of Europe which will provide natural locations for extension of our Health Clubs.

We also have under study with the corporate management, plans for the expansion of our business in such fields as travel; diet foods; health food stores; health bars; executive health clubs; corporate fitness programmes; health resorts and new types of exercise equipment.

All of us at Vic Tanny are enthused and pleased to be a member of your corporate family. We accept the challenge to back this enthusiasm with the work necessary, so that we can make a profitable contribution to your Corporation.

LEEDS RICHARDSON COMPANY LIMITED

Head Office:
1560 BAYVIEW AVENUE, TORONTO, ONTARIO

LEEDS RICHARDSON
PRESIDENT

We are very pleased to report to the shareholders that this subsidiary, for the year ending September 30, 1970, enjoyed the most active in our history. This follows the companies annual growth pattern since our formation in 1961.

During the 1970 fiscal period, we have been successful in securing contracts for many of the large Hotel and office building complexes which are under construction in the Toronto area.

Our continued success is due to two factors, firstly being the absolute loyalty and independent endeavour of our employees; secondly, the facilities and advice that we have available to us through the Bartaco Group.

Our services consist of pile driving; underpinning; shoring; bridge and dock construction; caissons; earth augering; soil and rock anchors and complete building designs, including architecture and engineering services.

Our research of soil and rock anchors is continuing. As one of the first companies to pioneer this field in Eastern Canada, our professional advice and services are constantly requested.

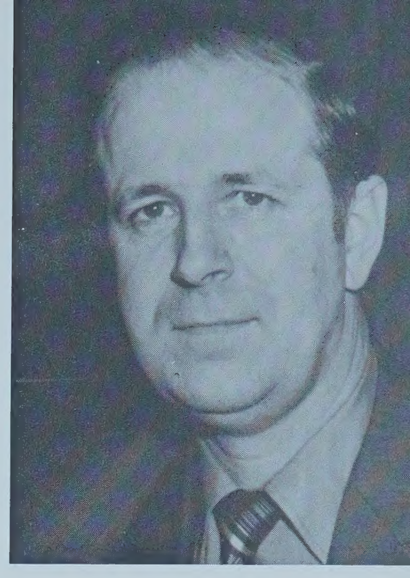
During 1970, the majority of our business continued to initiate from private industry. Our outlook for 1971 is encouraging and we forecast that it will be equal or better than 1970.

The excavation of Toronto's new swank Four Seasons Sheraton Hotel showing shoring completed by Leeds Richardson Company Ltd.

THE GAS MACHINERY COMPANY (Canada) LIMITED

Head Office:

10 FASCAN DRIVE, REXDALE, ONTARIO



JOHN C. BUTLER
PRESIDENT

Gas Machinery Company (Canada) Limited is a wholly owned subsidiary of your company and operates as engineers and contractors to industry. For many years, Gas Machinery Company has provided custom designed equipment, together with associated services to all segments of industry across Canada.

Products which are designed, fabricated, and in many cases, installed by the Gas Machinery Company include furnaces for the heat treatment of metals, or for heating prior to forging and shaping; induction furnaces for melting; atmosphere generators for production of hydrogen nitrogen, carbon dioxide, or for the mixture of these gases; purification equipment for treatment of natural or coke oven gases; and combustion systems including conversion or existing equipment from one fuel source to another.

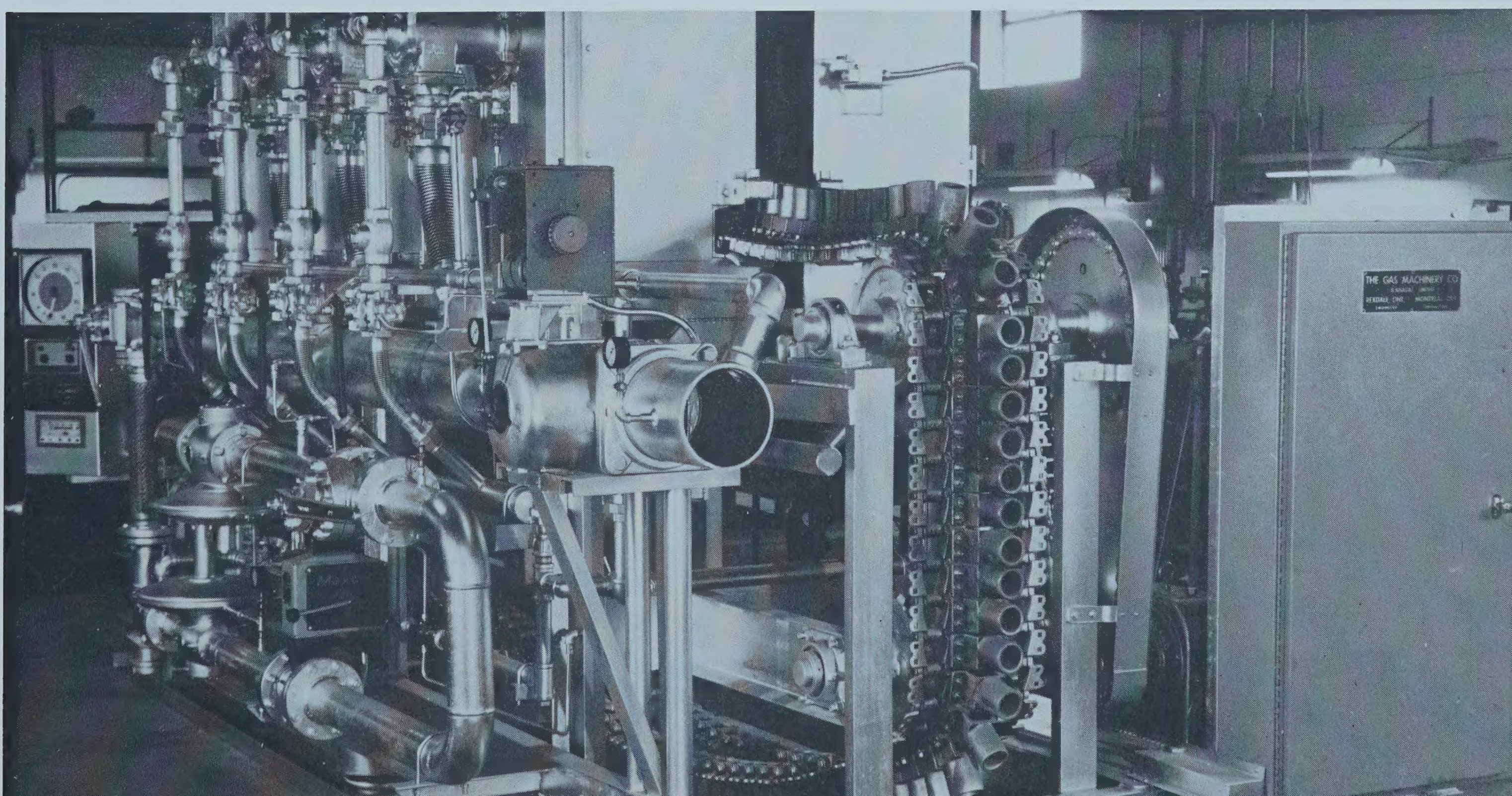
In addition to the above products, Gas Machinery Company (Canada) Limited also provides engineering services for the preparation of reports covering energy requirements for industry or cummunities, also feasibility studies for evaluation of the economics of various fuels.

Gas Machinery Company is at present working on extension to the air pollution control equipment for one of Canada's major steel mills and this installation will be completed during the 1971 fiscal period.

It is anticipated that the work carried out to date in the air pollution control field will shortly produce extensive business in the United States.

At the present time, several large projects are developing, and a development program is being undertaken in the area of anti-pollution equipment to meet new requirements of the Ontario Water Resources Commission. Considerable business could be developed as a result of this activity.

One of two Forge Furnaces built for General Motors - Unit heats the ends of bars prior to forging operation



ROBERT M. BARR
PRESIDENT

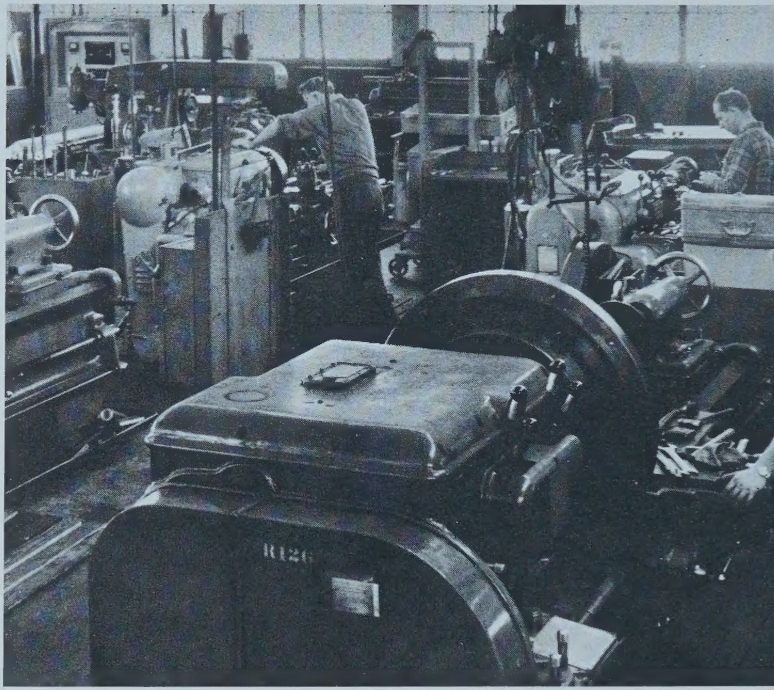
RENFREW AIRCRAFT & ENGINEERING COMPANY LIMITED

Head Office:
RENFREW, ONTARIO

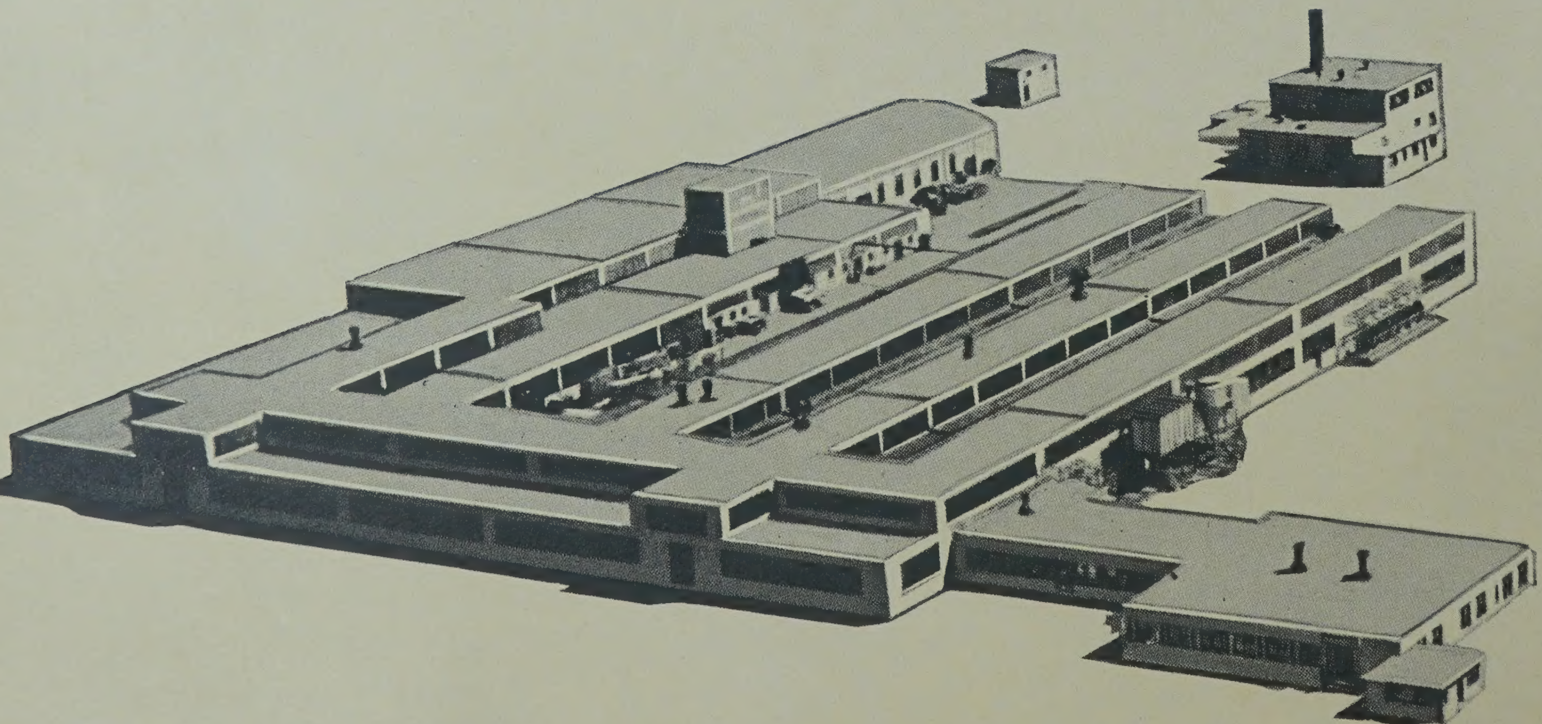
Renfrew Aircraft & Engineering Company Limited is a wholly owned subsidiary of your Company. Renfrew is one of Canada's largest privately owned precision machine shops for the production of aircraft engine parts and occupies approximately 110,000 square feet of floor space employing approximately 200 employees well skilled in the production of aircraft engine components.

The entire output of this facility, through a manufacturing agreement is contracted to United Aircraft of Canada Limited. The contract will be terminated during the 1971 fiscal year, as a result of the softening in the aerospace industry.

We are aggressively seeking new business for this plant and hopeful that satisfactory arrangement can be completed before the termination of our present contract.



A section of the Renfrew Tool Room



HALEY INDUSTRIES LIMITED

Head Office:

HALEY STATION, HALEY, ONTARIO

ROBERT M. TURNBULL
PRESIDENT

Haley Industries Limited is a wholly owned subsidiary of your Corporation, located approximately 70 miles west of Ottawa. Your Company is considered one of the foremost aluminum and magnesium foundries on the North American Continent and supplies a major amount of products to the aerospace industry and other castings to industries where rigid specifications and extreme quality control are required.

During 1970, your companies results were effected by the depression that hit our aerospace industry. The floating of the Canadian dollar from its previously pegged position also adversely effected the company, since much of its major production is for export.

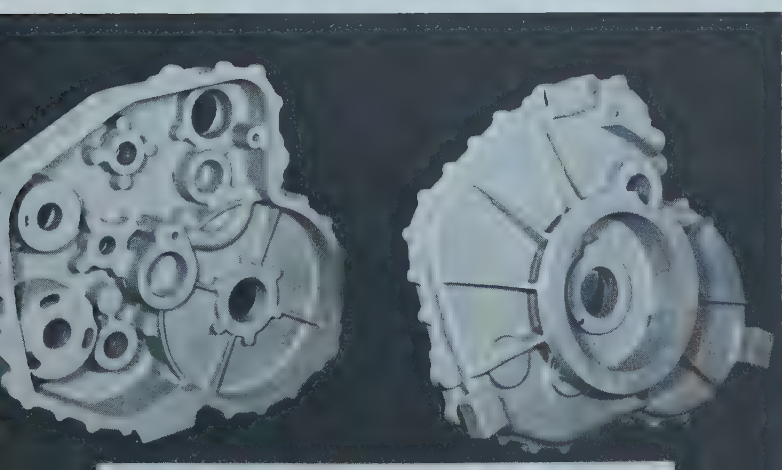
In 1970, Haley Industries were awarded for the second year running, the Bell Helicopter "Gold Rotor Award" for the high quality castings supplied and maintaining delivery schedules. We are proud of this achievment for the second year as the only Canadian company and only foundry supplier to be given this recognition.

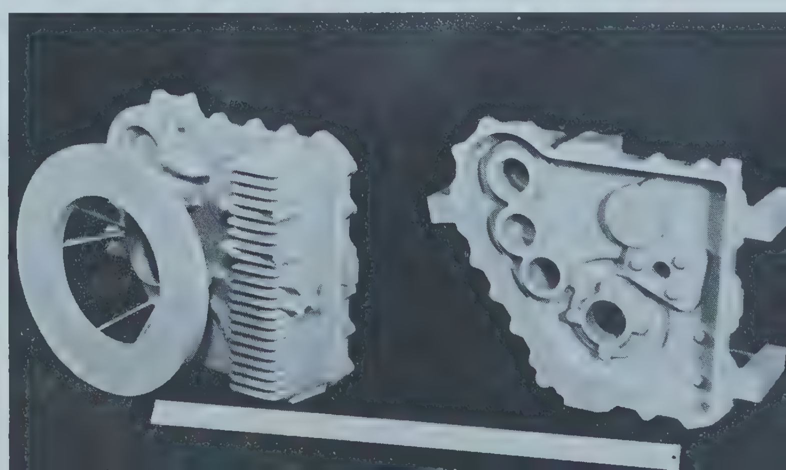
Many of the castings we have in production, can be linked with the aircraft industry for present and proposed production models. They include, the Bell Twin 212 Helicopter; the Lockheed Tri-Star L10-11: The Lockheed C5A Galaxy Transport; the Douglas DC10; Boeing's huge 747 and Air Force F15 Fighter.

Haley's capability and reputation, combined with the aggressive sales and promotion program, is now attracting enquiries from several new sources, which should produce increased activity with improved earnings in 1971.

View of new G.E. Drop-Bottom Quenching Heat Treatment Furnace

Magnesium Alloy Gearbox and Cover Assemblies





OTACO LIMITED

Head Office:

WEST STREET SOUTH, ORILLIA, ONTARIO

BRIAN W. BARR
PRESIDENT

Otaco Limited, the largest operating subsidiary of your Corporation, comprises four self contained major divisions: Industrial Products; Foundry; Athletic and Leisure Time.

During the 1970 fiscal period, success in some divisions was sobered with problems and frustrations in other divisions. On objective analysis, the experience we gained from the problems encountered, can only assist the Company in reaching the sales and production targets established for the next several years.

INDUSTRIAL PRODUCTS

This division during the past year, experienced an industry-wide softening in their agricultural products. The plans previously established to offset this agricultural situation, required the sales force to move more heavily into the Running Gear field.

A major breakthrough was accomplished this past year in successfully obtaining a large contract for the manufacture of wheels for a major foreign automobile producer. This latest contract will enable this division to obtain further automotive wheel orders from other foreign auto makers for both Canadian and export production, under the terms of the existing automotive tarriff agreement.

Many other product items are under review and investigation, with the idea of bringing some of these to market during the latter part of 1971.

FOUNDRY

Regarded as the backbone of our Company, our new Foundry is considered one of the finest in North America, with some of the most modern high production moulding and melting equipment on the market today.

During the1970 fiscal period, many unforseen start-up problems were encountered that effected our production targets. By the end of the year these problems were solved, which now enables this division to start 1971 with confidence and optimism.

The extensive sales effort previously put forth in Canada and the United States, has resulted in the Foundry having an all-time high backlog of orders on hand. During 1971, castings will be supplied to the automotive industry in Canada and the United States, along with increased orders from established accounts.

Seating of new University of Guelph stadium supplied by Otaco Athletic Division

The new high production orders can only be attributed to the fine sales efforts of company personnel, along with the extensive expansion program undertaken during 1969.

ATHLETIC

The integration of manufacturing, sales and administration of this division into the Otaco operation has been successfully completed.

This division during the past year, achieved an all-time high sales profit level. These accomplishments were achieved through the foresight and efforts of the divisions management personnel.

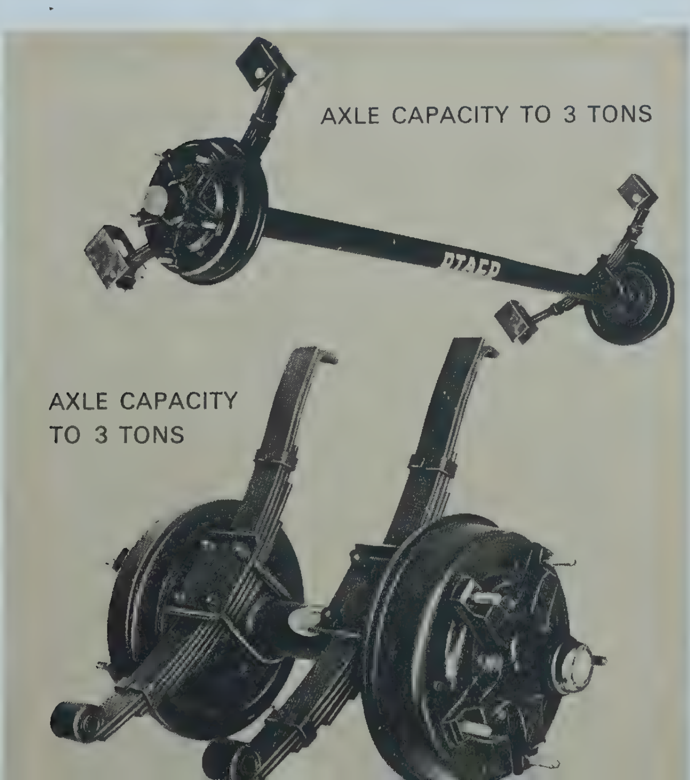
The outlook for 1971 is encouraging. This division enters the year with an all-time high backlog of orders on hand. We are bringing several new products to the market place during this year. An aggressive sales effort is being directed to many market areas in the United States, for supply of our "LITTLEJOHN" equipment, that we believe will meet with success.

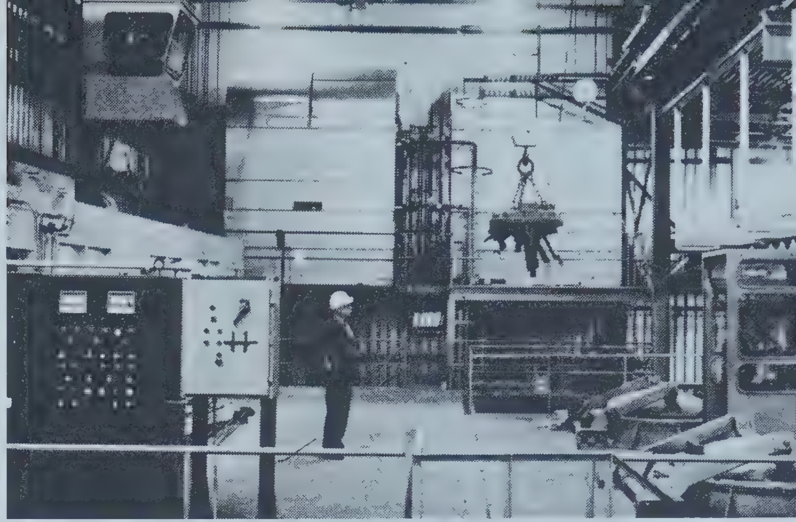
LEISURE TIME

This division, new to our company in 1970, is progressing well. Our "BAZOOO" All Terrain Vehicle is becoming established across Canada and in many states in the U.S. During 1971, exports to overseas markets will be made in volume.

In the latter part of 1970, we brought to market a complete line of Otaco Snowmobile Trailers that found instant trade acceptance.

As we entered 1971, a three wheeled All Terrain Cycle, tradenamed "TRIZOOO" has been added to this divisions production. We are optimistic regarding the high volume potential of this product.





Portion of electric melting platform

Several new products are under review and development for marketing during this year. We have confidence that the seventies will be good years for Leisure Time products.

C.S. CASTINGS LIMITED

C.S. Castings Limited operates as a division of Otaco Limited, producing steel castings. The company has enjoyed a successful year during 1970 and we anticipate a reasonable increase in sales and profits for 1971.

This company during the past year has added several new accounts which will help establish larger production runs.

Quality testing molten ductile iron

T. DON BARNES Jr.
PRESIDENT

DON BARNES LIMITED

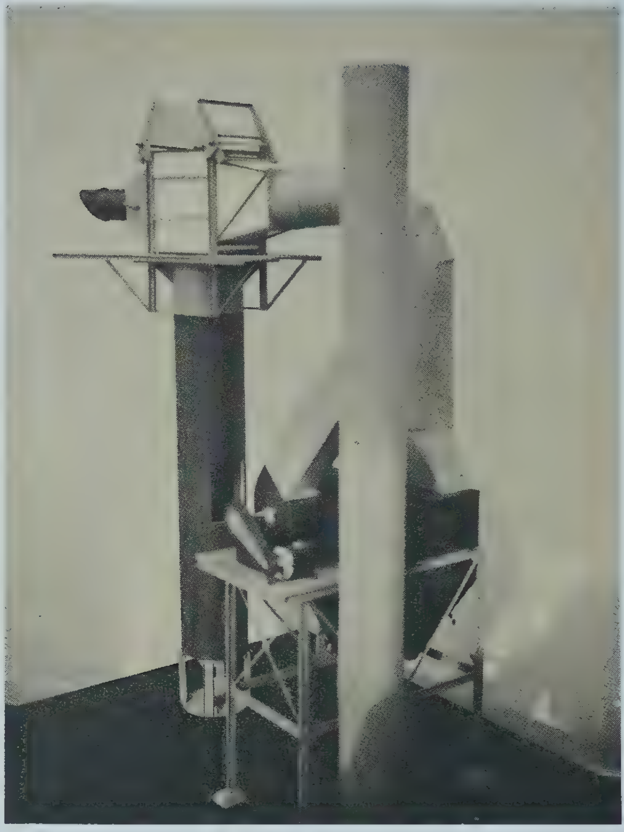
Head Office:

433 RENNIE STREET, HAMILTON, ONTARIO

Don Barnes Limited is one of Canada's leading foundry, engineering and supply companies. The company also represents many of the world's leading manufacturers of foundry machinery and equipment.

For the past two years, the company has been working on the development of a new air cleaning unit that can be installed on cupulas of small foundry stacks. This new smoke abatement unit has proven to be very successful in the first initial installations and is one of very few units that has approval by the Ontario Department of Labour.

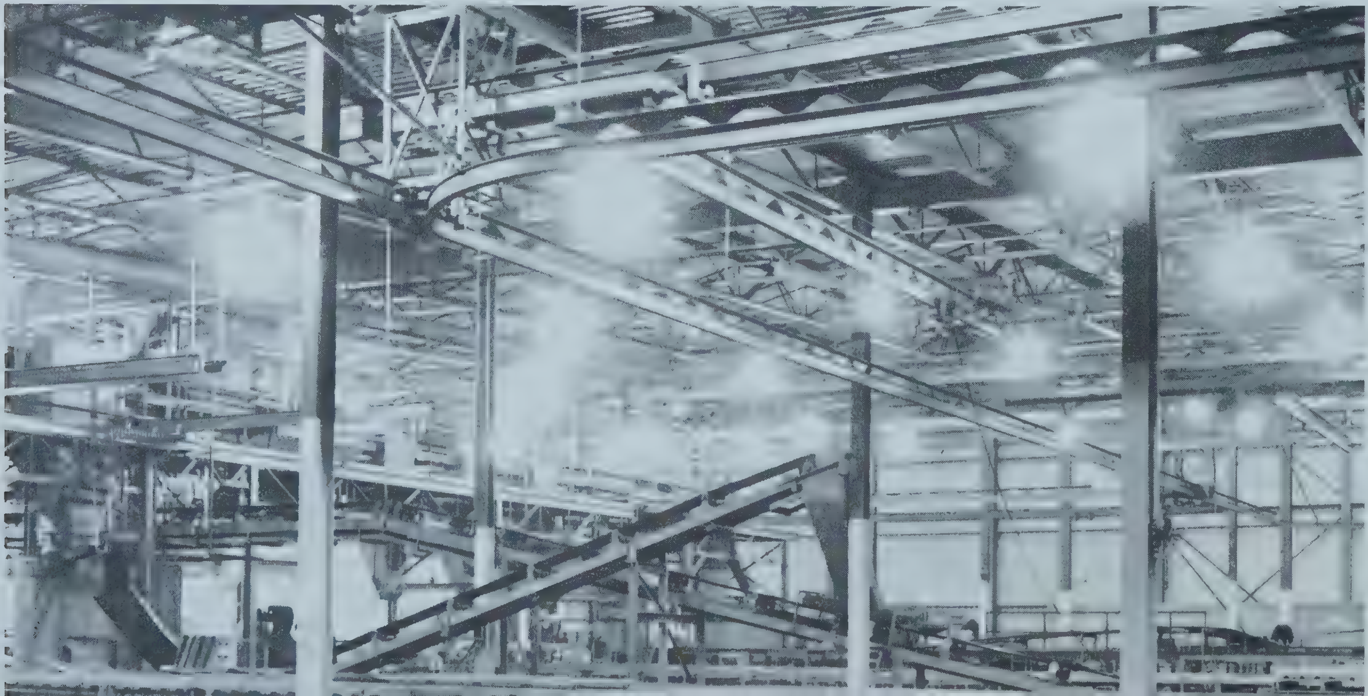
With the extreme emphasis being placed upon Air Pollution by governments at all levels, the experience and know-how of Don Barnes Limited will increase to be called upon by government and industry. Aside from emission control, the Company acts as engineers and supplies several Bartaco subsidiaries foundry requirements. During the building of the new Otaco foundry Don Barnes Limited acted as the prime contractor for the supply and installation of the majority of the high production equipment.



Smoke abatement unit for air pollution control

The leadership Don Barnes Limited is giving in combating air pollution, assures a successful and profitable future.

Portion of Otaco's new foundry designed by Don Barnes Ltd.



WAYNE FORGE LIMITED

Head Office:

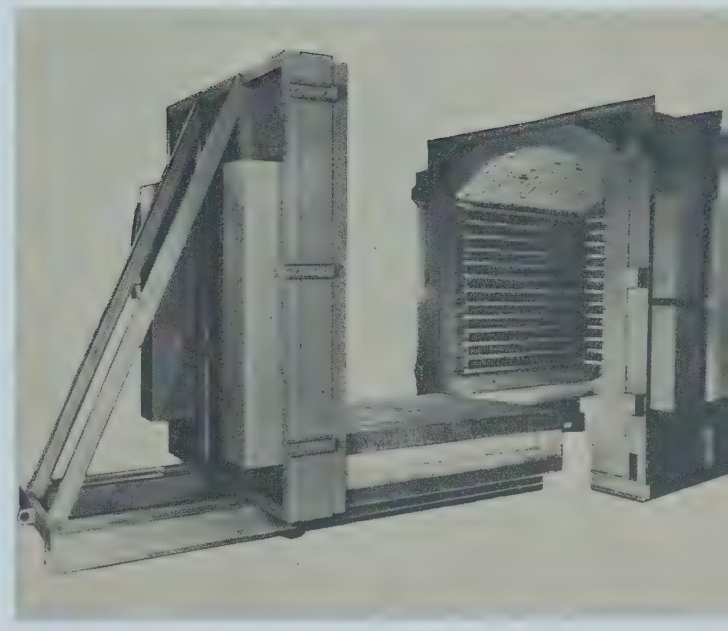
WEST STREET SOUTH, ORILLIA, ONTARIO

DOUGLAS DARLING
PRESIDENT

Wayne Forge Limited, a fully owned subsidiary of your corporation, manufacture a comprehensive line of products for industrial applications, more often custom designed for the job. These include: Process heating ovens; Heat treating furnaces; Forge furnaces; Metal melting furnaces. The company also manufactures heat treating equipment for use in trade schools and industrial art departments.

The company has been sharing manufacturing facilities with Gas Machinery Company in Rexdale, Ontario. Early in 1971 a move will be made to Orillia, occupying space in our Otaco plant. This move will reduce the operating overhead of the company and the addition of Wayne Forge products into the Otaco plant should be beneficial to the overall operation.

Wayne Forge Limited ranks high with leaders in their product field. This reputation augers well for the future success of the company.



Electrically heated heat treating furnace with moveable car bottom

BARLIN-SCOTT MANUFACTURING CO. LTD.

Head Office:

326 HILTON DRIVE, STONEY CREEK, ONTARIO

Barlin Scott Manufacturing Company Limited, is primarily involved in the sales and installation of domestic and commercial heating and air conditioning. Apartment ventilation has also become a major specialized service of the companies business.

The 1970 fiscal year was a difficult one for the company as a direct result of curtailment in home construction. Wise planning however, redirected the companies operation into the field of industrial sheet metal, that permitted considerable recovery of lost revenue by the end of the fiscal period.

JOHN E. WINTON
PRESIDENT

In 1971 we are hopeful that government action will initiate a large increase in home building start-ups. This will be most benefcial for our company to finish strongly at the end of the fiscal year.

CONSOLIDATED FINANCIAL STATEMENTS

Bartaco Industries Limited
and Subsidiaries
September 30

ASSETS	1970	Restated 1969	From the Annual Report 1969
Current assets			
Cash	$ 76,536	$ 97,956	$ 97,956
Marketable securities at cost which approximates market value	107,626	42,626	42,626
Accounts receivable	4,062,160	5,734,366	4,775,318
Inventory - at the lower of cost or net realizable value	2,379,974	2,184,460	2,184,460
Prepaid expenses	204,775	169,290	115,876
Total current assets	6,831,071	8,228,698	7,216,236
Long-term investments	385,000	-	-
Instalment accounts receivable due within two years	274,258	-	-
Property and equipment - at cost			
Land	91,149	252,865	252,865
Buildings and improvements	5,850,580	5,598,427	3,088,599
Machinery and equipment	6,500,285	5,125,583	4,060,104
	12,442,014	10,976,875	7,401,568
Less accumulated depreciation	3,836,942	3,561,675	2,873,712
	8,605,072	7,415,200	4,527,856
Other assets			
Excess of cost of combined companies over equity	334,693	313,694	277,177
Patents, at cost, net of amortization	15,783	10,560	10,560
Deferred charges (Note 2)	897,413	192,781	175,814
	1,247,889	517,035	463,551
	$17,343,290	$16,160,933	$12,207,643

APPROVED ON BEHALF OF THE BOARD

ROBERT M. BARR, Director

MYRON S. GELBACH Jr., Director

CONSOLIDATED BALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY	1970	Restated 1969	From the Annual Report 1969
Current liabilities			
Notes payable to bank and others (Note 3)	$ 1,770,713	$ 1,789,213	$ 1,779,304
Accounts payable and accrued expenses	3,483,664	3,999,627	2,857,862
Accrued income taxes	75,881	155,803	155,803
Current portion of long-term debt	395,995	387,648	224,507
	5,726,253	6,332,291	5,017,476
Current portion of deferred revenue	1,282,418	1,136,555	-
Total current liabilities	7,008,671	7,468,846	5,017,476
Deferred revenue (Note 4)	1,549,349	1,466,295	-
Current portion	1,282,418	1,136,555	-
	266,931	329,740	-
Long-term debt (Note 5)	3,922,748	2,694,161	2,630,308
Deferred credits			
Provision for pattern replacement	-	140,760	140,760
Forgivable loan (Note 5)	281,785	295,588	295,588
Income taxes	1,265,209	801,263	124,929
Excess of equity in combined companies over cost	106,505	139,859	139,859
Total deferred credits	1,653,499	1,377,470	701,136
Minority interests	-	154,000	154,000
Shareholders' equity			
Capital Stock (Note 6)			
Preference	1,941,500	1,941,500	141,500
Common	836,167	826,167	825,797
1.7m.	2,777,667	2,767,667	967,297
Retained earnings	1,713,774	1,369,049	2,737,426
850,000	4,491,441	4,136,716	3,704,723
	$17,343,290	$16,160,933	$12,207,643

Bartaco Industries Limited
and Subsidiaries

Fiscal year ended September 30

CONSOLIDATED STATEMENT OF INCOME

	1970	Restated 1969	From the Annual Report 1969
Revenue			
Net sales	$23,215,848	$25,218,755	$19,641,946
Costs and Expenses			
Cost of goods sold	18,060,892	19,464,056	15,404,999
Selling, administrative and general expense	3,122,491	3,595,031	2,721,634
Depreciation	455,759	402,582	201,327
Interest expense	217,996	111,194	94,847
Minority interests	-	11,465	11,465
	21,857,138	23,584,328	18,434,272
Income before Taxes	1,358,710	1,634,427	1,207,674
Income taxes — current	243,881	218,948	218,948
— deferred	462,906	478,346	261,346
	706,787	697,294	480,294
	651,923	937,133	727,380
Extraordinary Income			
Other income	-	118,606	118,606
Tax reductions from loss carry forward	-	208,000	208,000
	-	326,606	326,606
Net Income	651,923	1,263,739	1,053,986
Earnings Per Share			
Income before extraordinary income	$ .66	$1.01	$ .95
Net Income	$ .66	$1.41	$1.38

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	1970	Restated 1969	From the Annual Report 1969
Retained earnings at beginning of year	$ 1,369,049	$ 1,660,332	$ 1,660,332
Retained earnings of pooled companies at October 1, 1968	-	529,469	57,599
Acquisition of pooled companies (Note 1)	-	(2,050,000)	-
Retained earnings restated	1,369,049	139,801	1,717,931
Net income for the year	651,923	1,263,739	1,053,986
	2,020,972	1,403,540	2,771,917
Dividends paid by pooled companies prior to acquisition	198,000	-	-
Preference dividends — Current	9,198	9,198	9,198
— Prior years	-	25,293	25,293
Acquisition costs	100,000	-	-
	307,198	34,491	34,491
Retained earnings at end of year	$ 1,713,774	$1,369,049	$2,737,426

CONSOLIDATED STATEMENT OF CHANGES IN WORKING CAPITAL

Source of working capital	
Net income for the year	$ 651,923
Depreciation	455,759
Deferred income taxes	463,946
Proceeds from issue of common shares	10,000
Increase in long-term debt — net	1,228,587
	2,810,215
Use of working capital	
Increase in deferred credits — except deferred income taxes	68,156
Decrease in provision for pattern replacement	140,760
Decrease in minority interest	154,000
Decrease in deferred revenue	62,809
Increase in long-term investments	385,000
Increase in accounts receivable due within two years	274,258
Additions to fixed assets — net	1,645,631
Deferred start-up costs — foundry	557,407
Other deferred costs	147,225
Acquisition costs	100,000
Dividends paid — Bartaco Industries Limited — Preference	9,198
Pooled companies prior to acquisition	198,000
Miscellaneous	5,223
	3,747,667
Decrease in working capital	937,452
Working Capital — Beginning of year — Restated	759,852
Working Capital — Deficiency — End of Year	$ 177,600

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Bartaco Industries Limited and its subsidiaries as at September 30, 1970 and the consolidated statements of income, retained earnings and changes in working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at September 30, 1970 and the results of their operations and the changes in their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

November 24, 1970

McDonald, Currie & Co.

Chartered Accountants

Note 1 — Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the company and its subsidiaries. All inter-company accounts and revenue and expenditure transactions have been eliminated.

During the year ended September 30, 1970, one group of companies was acquired by the issuance of 50,000 common shares, $1,800,000, Series 'B', preference shares, and the payment of $250,000. A balance of $13,500,000 is payable in preference shares if the acquired company achieves the forecasted levels of profits over the seven years commencing October 1, 1970. (Note 7)

This acquisition has been accounted for as a pooling of interests and retained earnings have been charged with the par value of the preference shares issued and the cash paid. The financial statements for 1969 have been appropriately restated to include the operations of the pooled companies.

Note 2 — Deferred Charges

This includes $557,407 pre-production costs to be amortized over the next three years on a basis relating to production.

Note 3 — Security for Bank Advances

The bank advances are secured by a general assignment of book debts, assignment of shares in subsidiaries and assignment of fire insurance.

Note 4 — Deferred Revenue

The recently acquired group of companies defers a portion of its membership fees to be taken into income on a systematic basis over the life of the contract, which is generally two years. In addition, a portion, estimated to be the finance cost, of contracts which are not factored with a finance company, is taken into income on the "sum of the digits" method over the term of the contract.

Note 5 — Long-Term Debt

	Total	Payable within one year	Long-Term Portion
7½% Sinking fund debenture Series A due annually to 1981	$ 467,500	$ 42,500	$ 425,000
Due to Alco Standard Corporation	2,000,089	-	2,000,089
6% Mortgage payable - due annually to 1977	230,480	28,810	201,670
7¼% Debenture due monthly to 1982	729,300	61,200	668,100
Non-Interest bearing notes due annually to 1975	454,728	109,760	344,968
Sundry notes and mortgages payable with varying interest rates and maturity dates to 1975	436,646	153,725	282,921
	$4,318,743	$395,995	$3,922,748

The loan from the Ontario Development Corporation shown under "Deferred Credits" is forgivable over a period of six years, subject to compliance by the company with certain conditions.

Note 6 — Capital Stock

Authorized

98,375	Preference shares with a par value of $20 each, issuable in series	
1,000,000	Common shares of no par value	

Issued

7,075	6½% Series A, cumulative preference shares, redeemable at par	$ 141,500
90,000	6% Series B, cumulative, convertible, voting preference shares redeemable at par	1,800,000
		1,941,500
809,500	Common shares (September 30, 1969 - 758,500)	836,167
		$2,777,667

During the year the company issued 50,000 common shares and 90,000 Series B preference shares in connection with the acquisition of the pooled companies and 1,000 common shares for cash of $10.000. The Series B preference shares, created by supplementary letters patent, are redeemable after five years at the option of the company and convertible at rates varying from one common share for each one and a half preference share in the first year to one common share for two and a half preference shares after two years.

During the year options to purchase 1,000 common shares at $10 per share were exercised. Options to purchase 4,000 shares at $10 per share, granted to certain officers and directors of an acquired company are still outstanding. These options expire four years hence or earlier under certain conditions.

Note 7 — Contingent Liability (Notes 1 and 6)

The company has a contingent liability to issue a total of $13,500,000 in ½ of 1% cumulative, voting, convertible, redeemable, preference shares provided the subsidiary acquired during the year achieves the levels of profits forecasted for the seven years commencing October 1, 1970. The dollar amount of preference shares to be issued in settlement of this obligation is restricted to 55% of pre-tax profits of the acquired company in excess of $1,000,000 in each of the seven years. On consolidation the par value of preference shares issued will be charged against consolidated retained earnings. Existence of this contingent liability is evidenced by a non-interest bearing debenture, convertible only into preferred shares and held in escrow until the above condition is met.

Note 8 — Long-Term Leases

Minimum rentals under lease agreements of the companies which extend for more than five years from September 30, 1970 aggregate approximately:

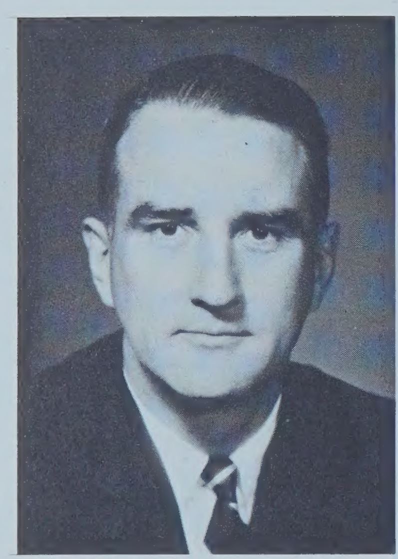
1971 - 1975	$2,449,000
1976 - 1980	1,933,000
1981 - 1985	1,351,000
1985 - thereafter	1,099,000

Note 9 — Remuneration to Directors and Officers

Remuneration paid or payable to directors and senior officers amounted to $185,807 (1969 - $202,500).

THE BARTACO MANAGEMENT BOARD

TINKHAM VEALE II
DIRECTOR
Chairman & Executive Director
ALCO STANDARD CORPORATION



MYRON S. GELBACH Jr.
DIRECTOR
President
ALCO STANDARD CORPORATION

WILLIAM F. DRAKE Jr.
SECRETARY
Vice President, Legal Director
and General Counsel
ALCO STANDARD CORPORATION

ROBERT M. BARR
PRESIDENT

BRIAN W. BARR
VICE PRESIDENT

R. HOWARD McRAE
EXECUTIVE VICE PRESIDENT
and TREASURER

BIL

BIL